WP/02/85

IMF Working Paper

When Is Economic Growth Pro-Poor? Experiences in Malaysia and Pakistan

Mahmood Hasan Khan

INTERNATIONAL MONETARY FUND

WP/02/85

IMF Working Paper

IMF Institute

When Is Economic Growth Pro-Poor? Experiences in Malaysia and Pakistan

Prepared by Mahmood Hasan Khan[1]

Authorized for distribution by Mohsin S. Khan

May 2002

Abstract

This paper focuses on two central issues related to the contrasting experiences of Malaysia and Pakistan regarding poverty reduction. First, it examines the structure of economic growth and its proximate determinants in the two countries, including the initial conditions, institutional changes, and macroeconomic policies. Second, it analyzes the links between economic growth and poverty reduction, particularly focusing on public policy mechanisms to reduce poverty and inequality. Malaysia, unlike Pakistan, was able to sustain rapid economic growth with equally impressive reduction in poverty because the governments included the poverty reduction goal in national development plans and pursued policies consistent with the twin goals.

JEL Classification Numbers: 01, 02, and 05

Keywords: Economic Growth, Poverty, Malaysia, Pakistan

Author's E-Mail Address: mkhan@sfu.ca

---

[1]The author is Professor of Economics at Simon Fraser University, Canada. He is grateful to Mr. Mohsin S. Khan, Director of the IMF Institute, for asking him to write this paper. Also, he thanks Mr. Khan, Ms. Anne Epaulard and some of their colleagues in the IMF for their valuable comments on an earlier draft, Mr. Manzoor A. Gill for his help in gathering the data, and Ms. Farah Ebrahimi for editing the paper. The author, however, is solely responsible for the contents of the paper.

Contents

Page

Appendix Tables

I. INTRODUCTION

It is widely accepted that economic growth is necessary but not sufficient for poverty reduction. Experience suggests that if countries put in place incentive structures and complementary investments to ensure better health and education that lead to higher incomes, the poor will benefit doubly through increased current consumption and higher future incomes. The pattern and stability of economic growth also matter in reducing poverty. A capital-intensive, import-substituting, and urban-biased growth process, induced by distortionary policies on pricing, trade, and public expenditure, has not been good for alleviating poverty. Growth contributes most to poverty reduction when it expands employment, productivity, and wages of poor people, and when public resources are spent on human development and physical infrastructure. Growth obviously does not help poverty reduction when a high proportion of the gross domestic product (GDP) is spent on servicing the public debt and maintaining a large civilian and military bureaucracy.[2]

Two Asian countries, Malaysia and Pakistan, are contrasting cases with regard to the impact of economic growth on national poverty in the last 45 years. These countries have been selected for two basic reasons. First, both countries emerged as new nation-states after World War II with many similar legacies of the colonial rule, a predominantly rural and enclave economy, and a highly hierarchical and custom-bound society. In addition, since their independence, both countries have experienced similar overall growth rates—Malaysia grew at an annual average rate of 6.6 percent, while Pakistan's average growth rate was 5.3 percent per annum. Of course, this is not to deny that there were some important initial economic and social differences. Second, the vastly different development outcomes in the two countries have been largely due to the differences in the policy-induced structure and quality of the growth process. In Malaysia, poverty declined from about 50 percent of the population in 1970 to only 8 percent in 2000. In Pakistan, on the other hand, although less than 50 percent of the population was regarded as poor in 1970, the poverty level fell more slowly than in Malaysia until the late 1980s. During the 1990s, however, poverty seems to have increased, reportedly rising from 22 percent of the population in 1990 to 34 percent in 1999.

This study focuses on two central issues related to the contrasting experiences of Malaysia and Pakistan. First, it examines the structure of economic growth and its proximate determinants in the two countries, including the initial conditions, institutional changes, and macroeconomic policies. Second, it analyzes the links between economic growth and poverty reduction, particularly focusing on public policy mechanisms to reduce poverty and inequality. A major hypothesis is that Malaysia, unlike Pakistan, was able to sustain rapid economic growth with equally impressive reduction in poverty because Malaysia's successive governments included poverty reduction as a goal in their national development plans and pursued policies consistent with the twin goals.

---

[2] These general statements are supported by the results of extensive research on these issues documented by the World Bank (2001).

II. INITIAL ECONOMIC AND SOCIAL CONDITIONS

Pakistan and Malaysia emerged as independent states after World War II, with somewhat similar economic structures but quite dissimilar institutions and social conditions. The economic similarities are reflected in their dependence on natural resources, including agriculture and minerals, and in their income and employment levels and exports. The dissimilarities, however, were more significant in terms of the level of income per capita, the role of foreign capital, and the degree of integration of the economy with the rest of the world. In addition, unlike Pakistan, Malaysia was ethnically more diverse, and ethnicity played a major role in the distribution of wealth and income. However, the economic and social conditions of the majority of Malay (Bumiputera) population were quite similar to the Muslim population in Pakistan.

A. Malaysia

Malaysia was formed in 1961 as a federation of Malaya, North Borneo (now Sabah), Sarawak, Brunei, and Singapore. However, Brunei and Singapore opted out of the federation in 1963 and 1965, respectively.[3] The Federation of Malaya was established in 1914 under the British colonial rule by the Malay sultanates (states), although the process of economic and political integration of these states into the British Empire had started in the mid-1870s. Malaya gained its independence in 1957. Singapore was part of the British Empire until 1960. The British mercantile interests ruled the states of Brunei, Sabah, and Sarawak on the island of Borneo until the early 1960s.

As a British colony, Malaya (Peninsular Malaysia) was an enclave economy with a distinctly dualistic structure for almost one hundred years. A large part of this economy was controlled by the British capital invested in rubber plantations, tin mining, and timber extraction, and their products were almost entirely exported. Most of the labor for these activities consisted of migrants from China and India. The waves of migrants in the 19th and 20th centuries, supported by the British, had transformed Malaya into a multiethnic society by the time of its independence in 1957.[4] The other part of the economy consisted of agricultural production and fishing, mostly for consumption, in the rural and urban areas. The Malay tenants, small landholders, and *orang asli*, or the indigenous non-Malay community, were engaged mainly in these activities. There were almost no large-scale industries and the Chinese largely controlled the small-scale processing industries, trade, and services. The British administration followed a laissez faire policy for trade with emphasis on law and order and maintained macroeconomic

---

[3]Malaysia comprises the Federation of Malaya (11 states on the Peninsula), Sabah, and Sarawak. The social and economic data on Malaysia relate to the period from 1965 to 2000. The data for the periods before 1965 are only for Malaya or Peninsular Malaysia.

[4]This factor has played a major role in the political structure and economic policies of successive governments in Malaysia.

stability. The rental and export incomes from tin, rubber, and timber provided ample foreign exchange for the import of consumer goods and repatriation of profits. They also generated substantial revenue for the colonial government to maintain law and order and to build the physical infrastructure necessary for keeping the enclave economy profitable.

At the time of independence, Malaya's population was about 6.2 million, of which almost one-half were Malay, 37 percent Chinese, 12 percent Indian, and the rest (mainly orang asli) made up 2 percent. A vast majority (80 percent) of the Malay population lived in rural areas and most of the Chinese (73 percent) lived in urban areas. Although the average income in Malaya was higher relative to its neighbors, large income disparities existed between the ethnic groups and within the Malay population.[5] Malays were the poorest of the three major groups. A large part of the export and import trade, rubber plantations, and tin mining were owned and controlled by the British interests. Malaya was one of the most profitable colonies of Britain until its independence (Gomez and Jomo, 1999). The dualistic economy of Malaya was dependent largely on natural resources with little manufacturing industry. Agriculture provided 45–50 percent of the GDP and engaged about 65 percent of the labor force. International trade was a major engine of incomes based on the export of tin and rubber and import of a large number of consumer goods. Exports and imports accounted for nearly 90 percent of the GDP. Changes in the demand for tin and rubber and their prices in world markets greatly affected the level of national income and government revenue.

Malaya's independence was achieved by an alliance of the main Malay, Chinese, and Indian political parties, and it has remained in government within a parliamentary system ever since.[6] The Alliance has continued to reflect the fine social and economic balance between the three groups, but particularly between the Malay and Chinese, and provided continuity of a "social contract" through economic plans for rapid and equitable growth. Malaysia also inherited a strong central government and a small and efficient administration. The firmly entrenched legal code would give the government a strong base for implementing and administering its policies in the decades ahead. However, these institutions also served to codify certain social disparities, particularly in health and education, which have affected Malaysia since the beginning.

---

[5]In 1950 the GDP per person in Malaya was $1,828 (in 1985 international dollars) compared with $1,208 in Japan and between $565 and $943 in other countries of East and South East Asia (Drabble 2000, p.160). It should be added that the foreign owners of resources and a small proportion of the Chinese traders and Malay elite received most of the income. The average income of the rural Malay was quite comparable to the average income per capita in Pakistan.

[6]The Alliance was able to survive the ethnic riots between the Malay and Chinese in 1969; it was renamed the National Front (Barisan Nasional) with the induction of the smaller and regional political parties in 1974.

B. Pakistan

Pakistan was carved out of British India as an independent state in 1947 with two separate parts—East and West Pakistan—where a vast majority of the people, though linguistically and ethnically diverse, were Muslims. Although Pakistan was established as a federation of provinces, it functioned as a highly centralized state dominated by the elite from West Pakistan. The inability of successive governments to address the issue of interregional economic disparities between East and West Pakistan, which simmered throughout the 1950s and 1960s, led to a costly civil war after the general election in 1970 and eventually to the dismemberment of Pakistan at the end of 1971.

Pakistan—which was called West Pakistan, including the present provinces of Punjab, Sindh, North-West Frontier, and Balochistan, until the end of 1971—was an agrarian economy based on an irrigation system that the British developed in the Indus basin over a 50 year-period beginning in the 1880s. A large part of the output of grains, hides, and cotton was exchanged for manufactured consumer goods from other parts of British India and foreign countries. Most of the agricultural land was owned and controlled by landlords—*zamindars and jagirdars*—and cultivated by sharecropping tenants. However, some of the newly-irrigated areas in Punjab were allotted to small landowners. Muslim landlords and peasants provided a large part of the government revenue for infrastructure through land taxation. The non-Muslim population, Hindus and Sikhs, dominated the commercial and financial transactions and small-scale industries. Almost all of the large-scale manufacturing was located in other parts of British India. The colonial government's investment was limited to the building of physical infrastructure, particularly the network of canal irrigation, railways and roads linking the main markets and the administrative (urban) centers. There were large interregional disparities between the irrigated and nonirrigated areas.

Pakistan emerged as an independent state with the partition of British India in 1947. Pakistan received over 6 million Muslim refugees between 1947 and 1951, which necessitated major adjustments in the economy and society. The emigration of Hindus and Sikhs to India greatly disrupted Pakistan's commercial and industrial activities until Muslim entrepreneurs replaced the emigrants in the early 1950s. The population of Pakistan was estimated at 34 million in 1951, with nearly 80 percent living in rural areas.[7] Agriculture was the mainstay of the economy, contributing nearly 55 percent of the GDP, using nearly 70 percent of the labor force and earning 90 percent of the foreign exchange. In 1950, the average income per capita was about $360 (1985 international dollars) or one-fifth of the income per capita in Peninsular Malaysia. Given the high concentration of agricultural land, which was still the most important income-earning asset, the distribution of income was highly unequal.

The transfer of power from the British to Pakistan included a constitutional but highly-centralized administration dependent on a narrowly based elite civil service. It was also a one-party state led by the Muslim League that depended on the political leadership of a handful of dedicated individuals, although a majority of the regional leaders were zamindars and jagirdars.

---

[7]The data for Pakistan exclude the data for former East Pakistan (Bangladesh).

In the first four years, Pakistan was overwhelmed by several events, including the conflict with India on Kashmir, settlement of Muslim refugees, scarcity of financial resources and trained personnel, and the death of its founder followed soon by the death of its first prime minister. The failure of political leaders to develop a consensus on a new constitution and the increased political power of the civil and military bureaucracy, reflecting clearly the failure of politicians, created political instability in the early 1950s, which eventually led to the military takeover in 1958. The politicization of the civil and military bureaucracy contributed a great deal to the increased centralization of authority and exacerbated the regional grievances in both East and West Pakistan.[8]

III. CHANGES IN ECONOMIC AND SOCIAL CONDITIONS

This section analyzes changes in the economic and social profiles of Malaysia and Pakistan—reflecting the structural transformation of the economies and improvement in the quality of life—using the data on major economic and social indicators shown in Tables 1 to 6. Some of the indicators reflect the differences in the policy stances and outcomes in the two countries during the survey period (1960–2000).

A. Economic Growth and Structural Transformation

In the 1950s, Malaysia (Peninsular Malaysia) enjoyed far more favorable conditions than did Pakistan in several respects. Malaysia had a significantly higher income per head, far higher rates of adult literacy and school enrollment of male and female children, far lower infant mortality rates, higher life expectancy, greater macroeconomic stability, and a somewhat better endowment of natural resources in relation to the population.

Malaysia's real GDP grew annually at an average rate of 6.6 percent compared with 5.3 percent in Pakistan during 1955-2000. However, Pakistan's economic growth rate was significantly higher in the 1960s and modestly higher in the 1980s (Tables 3 and 4). It should be added that Malaysia's growth rate was higher than 6.0 percent per year throughout the period, except in the second half of the 1950s and 1990s and the first half of the 1980s. Given the lower level of average income in Pakistan in the 1950s, private consumption accounted for 82 percent of GDP as against 63 percent in Malaysia; the ratio fell to 73 percent in Pakistan and to 49 percent in Malaysia by the end of the1990s. It should be noted that the ratio of private investment to GDP was similar in the two countries in the 1950s. But in Malaysia private investment rose to nearly 20 percent in the 1990s, and stayed unchanged at 9 percent in Pakistan.

---

[8]The dominant civil and military elite was able to contain the ethnic and religious differences within West Pakistan by various means until the separation of East Pakistan in 1971. However, these differences have been a major source of political instability in Pakistan ever since. It has been argued that the political elite has manipulated these differences to their short-term benefit (Noman 1990; Easterly 2001).

Similarly the share of public investment in GDP doubled from 7 percent in Malaysia but fell slightly in Pakistan from 8 to 7 percent during the same period.

Agricultural growth was the major contributor to the growth of GDP in Pakistan, and the growth of manufacturing and exports made the major contribution to the overall growth rate in Malaysia. The two economies have experienced significant structural changes due to the growth process. In both economies agriculture was almost equally important in the 1950s in terms of its contribution to GDP and use of labor. However, today it has become far less important in the economy of Malaysia than in Pakistan; agriculture contributes only 9 percent to GDP (25 percent in Pakistan) and uses 17 percent of the labor force (45 percent in Pakistan). The role of industry, particularly manufacturing, has become far more dominant in Malaysia, with services being almost equally important in the two economies. The trade composition in both countries has changed significantly from dependence on the export of primary goods to manufactured goods. It should be added that Malaysia has developed a much broader base of manufactured goods for exports than Pakistan has. The same shift has occurred in the composition of imports in Malaysia, but in Pakistan the share of primary goods has increased and that of manufactured goods decreased.

The differences in the growth rates and changes in the economic structures between Malaysia and Pakistan should be placed in the context of other important macroeconomic differences. For one thing, foreign trade has been far more important in the Malaysian economy than in Pakistan, although its importance in Pakistan increased as well from 10 percent of GDP in the 1950s to about 40 percent in the late 1990s. It is significant that the growth rates for both exports and imports were significantly higher in Malaysia than in Pakistan throughout the period, except in the 1960s. Malaysia managed to keep a low annual inflation rate, ranging between 1 and 5 percent, except in the 1970s when the rate was about 6 percent. In Pakistan, except for the 1960s, inflation was much higher, ranging from 7 percent to 21 percent. A similar difference can be observed in the government budget and balance of payments. In Malaysia there was a budget surplus in the second half of the 1950s and a negligible deficit in the 1990s; its budget deficit was reasonably low in the 1960s (4 percent of GDP) but high in the 1970s and 1980s (7 and 8 percent). In Pakistan, the budget deficit was reasonably small (4 to 5 percent of GDP) in the first 15 years (1955 to 1970), but rose to between 7 and 8 percent of GDP from the early 1970s to the end of 1990s. Similarly, Malaysia experienced modest surpluses and deficits in the current account, except in the first half of the 1980s and 1990s, when the deficits were 8 and 7 percent of GDP, respectively. The current account deficits in Malaysia were always on account of services and not goods. Pakistan has never had a surplus on its current account, and the deficits were quite high in the 1960s and 1970s. The deficits in Pakistan have been on account of trade in both goods and services.

In terms of resources for economic growth, domestic savings and foreign capital, particularly foreign direct investment, have played a significant role in Malaysia, whereas Pakistan has depended on borrowed foreign capital (largely from international donors and agencies) with a low level of domestic savings and little foreign private capital. Domestic savings in Malaysia have always been significantly higher than in Pakistan and increased from about one-quarter of GDP in the 1960s to 40 percent in the 1990s; the level in Pakistan has

stayed between 8 and 12 percent of GDP.[9] It is important to note that the ratio of domestic investment to GDP was similar in the two countries in the 1950s and 1960s, but increased in Malaysia to 36 percent and stayed at about 17 percent in Pakistan at the end of the 1990s. In both countries, the government revenue in proportion to GDP increased through time but was always higher in Malaysia. The ratio of government spending to GDP rose in both countries, but much more significantly in Malaysia, rising from 13 percent in the 1950s to 34 percent in the 1980s, before falling to 23 percent at the end of the 1990s. The share of government spending to GDP in Pakistan rose almost constantly, from 14 percent to 23 percent until the 1980s and stayed at that level in the 1990s.[10]

Foreign private capital has played an important role in the economy of Malaysia, including the preindependence period. After independence, foreign direct investment rose from just over 3 percent of GDP in the early 1970s to 6 percent in the 1990s. In Pakistan, foreign direct investment stayed under 0.5 percent of GDP until the 1980s and rose to only 0.9 percent of GDP in the 1990s. In contrast, foreign aid constituted nearly 5 percent of GDP in Pakistan in the 1960s, falling to 2 percent in the 1990s.[11] In Malaysia, however, foreign aid was less than 2 percent in the 1960s and fell to 0.2 percent at the end of 1990s. The foreign debt of Malaysia, largely on account of the private sector borrowing, rose significantly, from $6 billion in 1980 to $20 billion by 1985 and was $41 billion in 2000. Pakistan's foreign debt, largely on account of the public sector borrowing, rose from $3 billion in 1970 to $15 billion in 1985 and to $36 billion in 2000. Compared with Malaysia, Pakistan has had a significantly higher debt burden from the mid-1960s (28 percent versus 11 percent of GDP) to the end of 1970s (41 percent versus 19 percent). However, Malaysia carried a higher debt burden in the 1980s, rising to 54 percent of GDP in the 1980s (against 42 percent in Pakistan), before it fell to 43 percent in the 1990s (against 56 percent in Pakistan). It should be added that the debt-service ratio in Malaysia ranged between 5 and 8 percent, except during the 1980s when it was about

---

[9]The difference in the level of per capita income between Malaysia and Pakistan cannot explain the difference in their levels of domestic savings. The high level of domestic savings in Malaysia, as in other East Asian countries, has been induced mainly by government policies with rapid economic growth and demographic transition (World Bank 1993). In Pakistan, on the other hand, macroeconomic instability, financial repression and weak institutions have discouraged private savings.

[10]Two important points should be noted here. First, in Pakistan the proportion of capital expenditure in the government budget was lower than in Malaysia and fell over time. Second, Pakistan spent a much higher proportion of its GDP on defense than Malaysia did, though the ratio in Pakistan has declined significantly (Khan 1999, p. 213).

[11]Pakistan received about $58 billion—in 1995 dollars—as foreign aid during 1960 and 1998 and it is the third largest recipient of aid after India and Egypt (Easterly 2001). The foreign aid data do not include the substantial military assistance, largely from the United States, received by Pakistan until the end of the 1980s.

17 percent. For Pakistan, the debt service ratio was never below 20 percent and has ranged between 20 and 29 percent; it rose from 20 percent in the 1970s to 27 percent in the 1990s.

B. Changes in Standard of Living

The data on changes in the standard of living, reflected by a number of economic and social indicators, show that the quality of life in Malaysia has improved far more impressively than in Pakistan. Using the United Nations Human Development Index (HDI) as a measure of standard of living, in 1999 Malaysia occupied 56th position and Pakistan 127th in a list of 162 countries. The values of HDI for Malaysia and Pakistan were 0.330 and 0.183 in 1960 and 0.832 and 0.445 in 1995, respectively. The gap in per capita income between Malaysia and Pakistan increased from about 5:1 in 1960 ($975 versus $181) to 9:1 ($4,600 versus $515) in 2000. Similar differences are seen in the changes in income per capita measured in purchasing power parity dollars; the gap was 2:1 in 1955, 3:1 ($1,278 versus $421) in 1975, and rose to 4.5:1 ($8,209 versus $1,834) in 2000. In addition to these differences it is important to examine the changes in other indicators of the quality of life.

Looking at the demographic transition, population grew more rapidly in Pakistan—from 30 to 137 million—than in Malaysia—from 6 to 23 million, increasing the gap between their populations from 5:1 in 1947 to 6:1 in 2000. However, in both countries, the growth rate has slowed particularly since the late 1980s. In 1960, the total fertility rate was 7 in Malaysia and 7.5 in Pakistan, but fell to 3 in the former and 5.3 in the latter by 2000. In 1960, the crude birth and death rates were higher in Pakistan than in Malaysia, but the difference between the two countries had increased significantly by 2000, since the fall in the two rates was far larger in Malaysia than in Pakistan. It should be added that Malaysia is now far more urbanized than Pakistan (56 percent of the population of Malaysia and 37 percent of the population of Pakistan live in urban areas) although about one-quarter of their populations lived in urban areas in 1960.

The differences in the infant mortality rate and life expectancy between Malaysia and Pakistan were quite large in 1960, but they have increased even more. Nearly all adults in Malaysia are literate, compared with only 45 percent in Pakistan, rising from 53 and 15 percent respectively in 1960. Almost all of the primary school-age children in Malaysia, but only 65 percent in Pakistan, are in school; in Malaysia primary school enrollment was almost as high in 1960. With regard to the secondary school, enrollment has increased from 19 percent to 67 percent in Malaysia but only from 11 to 30 percent in Pakistan. Public expenditure on health and education has always been higher in Malaysia, although the difference has been significantly higher in education than in health.[12]

---

[12]It should be noted that in both countries there are significant differences based on gender, income, and residence. In addition, there are considerable interstate and interprovince disparities. The differences between men and women are, however, far greater in Pakistan than in Malaysia because of inadequate participation by Pakistani women in education, health care and labor markets. See Easterly (2001) for a discussion of the wide differences by gender, region, and rural-urban residence in Pakistan.

Finally, the data on income distribution and poverty are important. Income distribution in Malaysia has been far more concentrated than in Pakistan, although the income concentration has fallen consistently in Malaysia since 1970 after rising significantly in the 1960s. In Pakistan, income inequality fell in the 1960s, increased in the 1970s, fell in the 1980s, and rose in the 1990s.[13] Since the data on poverty are based on the nationally defined poverty lines, the important point is to examine the trend in poverty reduction and not compare the poverty levels in the two countries.[14] In Malaysia, almost one-half of the population lived in poverty in 1970, but the proportion of the poor was only 8 percent in 2000. Poverty fell consistently over time in both rural and urban areas, although 12 percent of the rural and only 4 percent of the urban population was regarded as poor in 2000.[15] In Pakistan, the data show that poverty increased in the 1960s, from 40 to 47 percent of the population, although the economy grew at a robust rate. There was a significant fall in poverty during the 1970s and 1980s, from 47 to 22 percent of the population. It should be noted that there was little economic growth in the 1970s but quite significant growth in the 1980s. There was a substantial increase in poverty in the 1990s, rising from just over one-fifth (22 percent) of the population in 1990 to nearly one-third in 1999. It is fair to suggest that in Malaysia economic growth had a significant impact on reducing poverty, whereas in Pakistan economic growth seems not to have had a strong relationship to changes in poverty.[16] The following section further explores the differences in the institutions and policies that may have affected both economic growth and poverty in the two countries.

---

[13]The following data on income distribution are taken from the official publications of Malaysia and Pakistan:

	1958	1967	1970	1980	1990	1995	1999
Malaysia (Gini coefficient)	0.412	0.525	0.513	0.493	0.445	0.456	0.443

	1963	1970	1972	1979	1985	1988	1992	1997	1999
Pakistan (Gini coefficient)	0.386	0.330	0.345	0.373	0.369	0.348	0.410	0.400	0.415

[14]The data on poverty in Pakistan are cited in *Economic Survey 2000–2001*, p.54. For Malaysia, see World Bank (1991) and the Seventh and Eighth Plan documents.

[15]In Malaysia, there is extensive debate about the method of measurement and numbers of the poor in the literature on poverty (see, for example, Jomo, 1990, and World Bank, 1991). It has been suggested that in Peninsular Malaysia poverty increased in the 1960s (Barlow 2001). At present, the poor generally comprise the urban households dependent on wages from unskilled labor, rural households with dependence on small-scale farming and fishing among the Malay and *orang asli* households, and the indigent households headed by the elderly or the widowed. The government has been quite active in studying and measuring the characteristics of the poor and extreme poor (World Bank 1991) for its targeted programs.

[16]The poverty (headcount) numbers for Pakistan are not based on a consistent poverty line or series of data. However, they seem to reflect reasonably well the changes in rural and urban poverty. See World Bank (1995a), Amjad and Kemal (1997), Mahbub ul Haq Center for Human Development (1999), and Khan (1999) for a detailed analysis of the issues related to poverty in Pakistan. The weak links between economic growth and poverty reduction in Pakistan can be attributed largely to the policy stance of governments.

IV. Proximate Factors in Economic Growth

The economies of Malaysia and Pakistan grew at an average annual growth rate of 6.6 and 5.3 percent, respectively, during 1955 and 2000. Pakistan's economy grew at higher annual rates in the 1960s and 1980s, but the Malaysian economy grew at significantly higher rates in the 1970s and 1990s. The growth process in Malaysia has brought about a much faster and deeper structural transformation of the economy and society than in Pakistan. The gap in human development between the two countries has increased significantly during the survey period. The explanation for this difference lies largely in the role of public policy for sustained economic growth and poverty reduction. In Malaysia, the government took an interventionist role in the economy and was reasonably consistent, but its policies were not as distortionary and erratic as in Pakistan.

A. Economic Growth in Malaysia

Since independence, Malaysia has enjoyed a high degree of political stability, except in 1969 when there were ethnic riots. This threat to the fragile political alliance came at the end of a decade in which the Malay-Chinese disparities grew largely because of their initial differences and the laissez faire policies adopted by the government in the 1960s. The government responded to the riots of 1969 with its New Economic Policy (NEP) in 1971. NEP can be seen as a response to the failure of the trickle-down effects expected from the market-led development to achieve a socially acceptable pace of growth in income and reduction in disparities of income and wealth between the economically disadvantaged Bumiputeras and other ethnic (Chinese and Indian) groups. In essence NEP reflected a new social contract between the major ethnic groups in Malaysia and a more active and direct role of the state in resource allocation, production, and trade, primarily through public enterprises. Successive governments, represented by the Alliance and the National Front (Barisan Nasional), have followed a consistently activist role through the five-year plans to maintain high levels of economic growth and to reduce economic disparities and poverty.[17] The economic growth experience of Malaysia can be divided into three distinct phases.

[17]The five-year economic plans were started in Malaya just before the state gained its independence in 1957. The First (1956–60) and Second (1961–65) Malaya Plans were formulated mainly as guides to the overall public expenditure and its allocation to different economic and social sectors. The First Malaysia Plan was launched in 1966, followed by six five-year plans up to 2000. The Second Malaysia Plan (1971–75) incorporated the objectives of the NEP with a perspective plan for the next 20 years. Then the Sixth Malaysia Plan (1991–95) included the objectives of the New Development Policy (NDP) for the 1990s and the objectives of "Vision 2020". The Eighth Malaysia Plan (2001–05) includes the objectives of the "National Vision Policy" for the first decade in 21st century. All of these plans are as much a statement of aspirations of the political elite as they are of the policy stance of the government to help sustain high rates of economic growth and reduce income disparities and poverty. Several accounts of economic growth and structural transformation in Malaysia have been published. See, for example, Rao (1980), Mehmet (1986), Jomo (1990), World Bank (1991), Ismail and Meyanathan (1993), Alavi (1996), Drabble (2000), and Meesook and others (2001).

1. Market-led development (1957–70)

The Malaysian economy experienced moderately stable GDP growth with an annual rate of 6 percent in the 1960s. Taxes on rubber, tin, and palm oil provided the bulk of government revenue. Price stability was maintained by a prudent monetary policy, although export earnings from rubber and tin had an influence on the money supply. Domestic savings, strongly affected by commodity prices, outstripped investment until about 1971. Fiscal prudence and the cautious attitude of entrepreneurs were probably responsible for the low investment rate. The country had a small budget deficit, a surplus in the external current account, and a stable currency without overvaluation. The government continued the colonial laissez-faire policies for industry, but intervened extensively to promote rural development and provide the social and physical infrastructure. It biased its interventions towards the rural areas—investing directly in agricultural and rural development and using public sector agencies for land development—where most of the Malay population lived. The government's hands-off industrial policy reflected the implicit social contract that gave the Malay party the leading political role, while the Chinese kept control over the industry and commerce.

Although the government promoted import substitution during this phase, it did not pursue a strong protectionist policy that would have penalized the primary product sector. The aim of this policy was to reduce dependence on imported consumer goods, promoting the use of domestic natural resources, and creating employment opportunities. Instead of direct industrial intervention, the government chose to operate through a favorable investment climate. The Pioneer Industries Ordinance of 1958 contained tax holidays, industrial estates, and supporting services and infrastructure. In the late 1960s, the Investment Incentives Act was introduced to promote industrial exports, and the government's intervention was increased following the formation of the Federal Industrial Development Authority to promote and regulate industrial development. In the 1960s, public sector expenditure—which increased from 13 to 21 percent of GDP—was concentrated on agricultural and rural development, building the transport and communications infrastructure, and providing education and health care.

2. State-led development (1971–85)

The ethnic riots of 1969 prompted a radical shift in the government's approach to development in Malaysia. The aim of NEP—growth and equity—was embodied in the twin objectives of eradicating poverty and restructuring the society to redress economic imbalances between the ethnic groups. The government set two major targets for the next 20 years. First, the Bumiputera group would manage and own at least 30 percent (as opposed to 2.4 percent in 1970) of the total commercial and industrial activities by 1990. Second, employment at all levels and in all sectors, particularly the modern urban sectors, had to reflect the ethnic composition of the population. To achieve its ownership target the government began a policy of nationalization, basically buying out and restructuring the equity of foreign-held companies and establishing trust companies for the Bumiputeras.[18]

---

[18]The NEP targets were to be achieved during the Second Plan (1971–76) to Fifth Plan (1986–90). The major areas of activities were (1) continued rural development, principally through land development and settlement schemes, to commercialize peasant agriculture;

In the pursuit of growth, the government stressed the diversification of agriculture and more intensive use of natural resources. It established regional development authorities to integrate agricultural, commercial, and rural development in selected regions. The decline in rubber and other commodities accelerated government programs to support the cultivation of cocoa and palm oil as well as extensive forestry. In addition, significant reserves of petroleum and natural gas were discovered in the eastern part of Peninsular Malaysia and offshore Sabah and Sarawak, and the government took over the extraction and refining. This period also saw a shift from import-substitution to export-oriented policies. They were aimed at encouraging the production of light manufactures such as textiles, footwear, and garments. Export incentives, tax breaks, and other indirect subsidies were given to pioneer industries, particularly through the Export Processing Zones (or Free Trade Zones). These incentives coupled with the availability of low-cost and semi-skilled women workers led to the rise of the semi-conductor industries in Malaysia.

In the first decade of NEP, both state and market forces were operating on the economy at the same time, though not necessarily always in contention. On the one hand, state interventions via licensing and quotas, mainly through the Industrial Coordination Act (ICA) of 1975, and regulated prices acted to restrain the market. On the other hand, the government encouraged the development of the private sector and private sector investment in export-oriented industries. The net effect was a mixed economy that was increasingly dominated by the state. Malaysia experienced a high rate of economic growth—8 percent per year—in the 1970s assisted by a significant increase in export earnings due to a commodity boom. There was rapid expansion of government expenditure in the late 1970s, dependent mainly on significant increases in both domestic and foreign savings. However, the commodity boom led to the appreciation of the currency, and the inflation rate increased to 9 percent after the second oil price shock in 1979.

The adjustments in industrial countries to the second oil price shock and the recession that followed led to the softening of markets for Malaysian exports in the early 1980s. This resulted in the deterioration of terms of trade, low growth, and weakened domestic savings. The precipitous drop in commodity prices created difficulties for fiscal and monetary polices and increased external debt. The financing of investment in the country, which had relied largely on domestic savings, shifted to external borrowing after 1980. By the mid-1980s the fall in commodity prices and incomes had squeezed savings, and the ambitious levels of government spending was financed largely by foreign borrowings. As the government acted on a broad front to address the immediate financial problems, the severity of external conditions persisted. By this time the increasingly restrictive features of ICA were also being felt, and the investment level fell. The economy took a plunge in 1985 but was able to recover by the end of 1986.

---

(2) promotion of manufacturing industry, especially oriented to exports; (3) regional development to reduce disparities between the east and west coasts of Peninsular Malaysia; and (4) ancillary policies to provide access for Bumiputeras to education and government employment.

In the early 1980s, when the economy was slowing down, the new leadership of the National Front (Barisan Nasional) initiated a return to import-substitution industrialization. This time it was based on the establishment of heavy industries (iron, steel, cement, and automobiles) to produce intermediate goods and consumer durables and to generate links with the domestic economy. Both private foreign and domestic public capital were raised for investment in these industries; the public sector allocation to industry rose to 27 percent in the Fourth Plan (1981–85). As the 1980s progressed, however, a combination of circumstances contributed to yet another change in policy. Among the problems were: (1) recession of 1985–86, (2) strain on government budget, (3) indebtedness and inefficiency of the nonfinancial public enterprises, (4) private capital flight, and (5) a large deficit in the current account. The government initiated large-scale privatization and liberalization of the economy to increase capital accumulation, competition, and greater efficiency in the use of resources. Export-oriented industrialization and foreign capital started to receive new incentives and priority.

3. Malaysia Incorporated: Liberalization and privatization (1986–2000)

The volatile economic climate in the mid-1980s, threatening the political and social fabric of Malaysia, paved the way for a series of policy reforms. In 1986, the government put the process of restructuring society in abeyance, while under the NEP there was substantial evidence of progress for the Bumiputeras reflected by their share in corporate capital, employment, and education and training. Wealth creation became more important than wealth redistribution. Therefore, the emphasis shifted to reviving economic growth through investment, particularly by the private sector. The 1975 ICA was modified and in 1986 the Promotion of Investment Act was introduced, accompanied by improved tax allowances and credit facilities for exports. These policies were designed to mollify the Chinese business interests and induce foreign investment. The government also kept public spending under control, focusing on providing the physical and social infrastructure and an environment needed for private enterprise to thrive. During the five years from 1986 to 1991, the growth rate accelerated, outstanding external debt was reduced, and the currency depreciated providing a boost to manufactured exports. Increased consumer spending following the recession became a more important source than the external sector for sustaining the growth process. In 1991 the NEP was extended with some modifications for a further decade and renamed the National Development Policy (NDP).[19]

The NDP reflected a switch in the government's approach toward its support for the Malay community. It placed greater emphasis on redressing ethnic imbalance in a more overt fashion through initiatives geared to entrepreneurship, managerial expertise, and skill development. It reaffirmed the continuation of the strong affirmative action stance as the basic tenet of national policy. The reforms from the mid-1980s also involved a gradual process of privatization and restructuring of state-owned enterprises. By the middle of 1990s, state

[19]NDP was part of a decade long Second Outline Perspective Plan (OPP2) for 1991–2000 following the publication of the "Vision 2020" plan by the Prime Minister in February 1991. See Gomez and Jomo (1999).

ownership in manufacturing was limited only to some politically sensitive ventures in car manufacturing, petrochemicals, iron and steel, and cement.[20]

A firm commitment to an open trade regime continued to be an integral part of the development strategy. Tariff protection of domestic industries, which was always lower relative to many other developing countries, was further reduced over time. In the area of labor market reforms, there was new emphasis on job creation rather than protection of workers' rights through labor legislation. The industrial relations legislation included compulsory arbitration of disputes and prohibition of strikes in "essential services" and labor unions were restricted to the plant level in the electronics industry—the most important industry for exports. Foreign capital participation was greatly facilitated by the controversial labor market policy after 1988.

The market-oriented policy reforms were accompanied by a strong focus on restoring and maintaining macroeconomic stability. The Fifth (1986–90), Sixth (1991–95) and Seventh (1996–2000) Malaysia Plans significantly reduced overall government expenditure and shifted spending from public sector enterprises to infrastructure projects designed to enhance private sector development. Throughout the 1990s, budgetary restraints on operating expenditure were an important aspect of fiscal policy. The budget deficits were kept low and were financed from noninflationary domestic sources, particularly by the Employees Provident Fund, which has been a major source of domestic savings in Malaysia. The government raised its revenue by broadening the tax base and increasing efficiency in tax collection, and by the good performance of the economy. Federal government was able to reduce external borrowing and pay back the more expensive external loans. The Central Bank maintained a tight monetary policy to accommodate fiscal prudence. During 1991-92, the Central Bank increased interest rates to curb rising inflation and strong credit expansion. However, the resulting interest differentials in favor of Malaysia, combined with a buoyant local stock market and expectations of a ringgit appreciation, attracted a surge of short-term capital inflows in 1992-93. Central Bank intervention to prevent too rapid an appreciation of the ringgit resulted in a build-up of excess liquidity in the banking system, putting downward pressure on interest rates.

The rapid economic growth of the Malaysian economy for over a decade was halted by the financial crisis in mid-1997, slowing the rate of GDP growth in 1997, followed by an actual contraction of the economy in 1998. The economy had regained the precrisis output level at the end of 2000 with positive growth rates in 1999 and 2000.[21] In the fall of 1998, the Malaysian government launched its National Recovery Plan that contained several macroeconomic policies and reforms of the financial and corporate sectors. The economy responded with a strong

---

[20]For a discussion of the privatization process, see Gomez and Jomo (1999).

[21] Meesook and others (2001) have analyzed in great detail the economic crisis and recovery in Malaysia during the second half of the 1990s. See also World Bank (2000) and Jomo (2001). It is important to note that, in the 1998 National Recovery Program, the government was able to provide fiscal stimulus to increase the aggregate demand and social protection for vulnerable Malaysians.

recovery during 1999-2000.[22] Its weak performance from the middle of 2000 was in large part due to the global slowdown.

In summary, the experience of long-term growth in Malaysia shows that, in spite of the challenges in meeting several conflicting objectives in a plural society, policymakers have been successful in positioning Malaysia in the world economic order characterized by increased internationalization of production. The affirmative policy on behalf of the Malay community has been combined with a pragmatic economic strategy for the expansion of private sector and an open economy. A stable political climate and a flexible policy regime have enabled the Malaysian economy to take full advantage of opportunities arising from integration into the global economy. The impressive growth performance of the economy since the early 1970s was helped in no small measure by the government's institutional support for high levels of domestic savings and investment, prudent fiscal and monetary policies, and adequate public expenditure on the physical infrastructure, education and training, and basic health care.

B. Economic Growth in Pakistan

The process of economic growth in Pakistan since its birth in 1947 has been greatly affected by public policy and management. However, unlike Malaysia, Pakistan has experienced considerable political instability and social tensions almost throughout the survey period.[23] The process of economic growth in Pakistan can be divided into five phases, reflecting the political regime and its approach to economic development. However, in each of these phases the governments played a key role, often with distortionary effects on the economy.[24]

1. The formative stage: Improvisation for growth (1947–58)

Pakistan's economy grew annually at only 3.5 percent during this period. The low growth rate was largely due to the poor performance of agriculture, particularly wheat, rice, jute and cotton, on which the economy heavily depended. A careful review of economic policy during this phase shows a series of ad hoc reactions to internal and external crises.[25] The first major

[22] Unlike other regional economies, Malaysia did not use the IMF resources for its recovery program that included the capital and exchange controls and accommodating fiscal and monetary policies. The controls on capital movement were gradually relaxed and the real effective exchange rate was stabilized in 1999-2000 (Meesook 2001).

[23] Much has been written on the political problems of Pakistan, including the role of the armed forces, and their effect on the process of economic growth. See, for example, Noman (1990), Burki (1999), and Rizvi (2000).

[24] There are several studies of Pakistan's economic development since 1947. References in this paper are from Andrus and Mohammed (1966), Noman (1990), Hasan (1998), Husain (1999), Khan (1999), and Zaidi (1999).

[25] Initially, the economic viability of Pakistan was threatened because of its tense relations with India. Also, in the formative years—from about 1953 to 1958—insufficient attention was given

decision not to devalue the Pakistani rupee in 1949, when the pound sterling and Indian rupee were devalued, resulted in India's decision to stop trading with Pakistan. However, the Korean boom in the early 1950s, which increased Pakistan's export earnings on account of jute and cotton, allowed the government to lift the import controls it had imposed in 1950 to reduce the impact of the decision not to devalue the currency. The trade surplus during 1950–53 was accompanied by deterioration in the terms of trade for agriculture, resulting in the transfer of significant amount of resources from the rural to urban areas, and rapid growth of the industrial sector. In response to the collapse of commodity prices in 1953–54, the government reimposed import controls and instituted a rigid system of import licensing. In addition, incentives were given to the private sector for the expansion of manufacturing industry. These incentives included tax holidays, preferential access to foreign exchange for the import of capital goods, credit at low interest rates, and tariff and nontariff control on imports. By the mid-1950s, Pakistan had adopted a strategy for rapid industrialization through import substitution, with the private sector playing the lead role.[26] While the industrial sector grew rapidly and the policy regime induced rent seeking by the business community, agriculture suffered by price discrimination and inadequate public expenditure, except for irrigation. The subsidy on agricultural inputs (water and fertilizer) was more than offset by price controls and provision of subsidized grains, sugar, and cooking oil to the urban population.

The government followed a mildly expansionary fiscal policy. The overall deficit stayed between 2 and 2.5 percent of GDP. Most of the development expenditure was on building the irrigation system, communications, and transport, with only 6 percent used for education, health, and social services. The defense expenditure absorbed between 50 and 67 percent of the government revenue and exceeded its capital expenditure. The share of external resources in capital receipts rose from 5 to 15 percent, but it was not more than one percent of GDP. Foreign economic aid was modest in spite of Pakistan's involvement in military alliances led by the United States. Monetary policy was conservative in the first five years; import controls offset the effect of rising foreign reserves during the Korean boom. However, monetary policy was ineffective in reducing the inflationary pressures in the second half of the decade resulting from increased deficit financing.

Soon after the birth of Pakistan, the political leadership publicized its intent to undertake several radical institutional and structural reforms, particularly with regard to the ownership and control of agricultural land and the taxation system. However, none of these reforms was undertaken. In fact, the industrial policy of the government created several anomalies and laid the foundation for distortions in Pakistan's trade and industrial structure. For one thing, although profits in the manufacturing industry soared, the real wage of industrial workers fell in the 1950s

---

to developing coherent policies for economic development because of the high priority accorded to the settlement of Muslim refugees, formulating the constitution, and political maneuvering to keep the parties in power.

[26]In fact, since almost all of the large-scale industrial units were in India, the government's Industrial Policy Document of 1947 expressed clearly its intent to promote industrialization through import substitution.

(Noman, 1990). In addition, significant transfer of resources poured from East to West Pakistan and from agriculture to the protected (and inefficient) industrial sector.[27]

2. State-guided development (1959–71)

During this period, Pakistan was ruled by two army regimes, the first lasted until early 1969 and the second presided over the general election in 1970 and dismemberment of Pakistan in December 1971. The centerpiece of the economic strategy of the first regime was its commitment to rapid industrialization of the country with the private sector acting as the "engine of growth" with an activist state facilitating the growth process. However, unlike the experience in the first decade, the new strategy did not neglect the agriculture sector. The economy experienced a growth rate of about 7 percent in the decade from 1959, supported by robust growth in both agriculture and industry. A large part of the public sector investment was contributed by foreign aid, with domestic savings rising from about 8 percent to 10 percent of GDP and domestic investment rising from 12 to 17 percent of GDP. However, investment in the social sectors remained low—education and health received only 6 to 8 percent of the development expenditure—with acceleration in the growth of population (from 2.3 to 2.8 percent per year) in spite of the much publicized family planning program. While the second army regime tried to continue the pro-growth economic strategy of the first military regime, it spent most of its effort and resources to restore an elected government acceptable to the political parties in both East and West Pakistan.[28]

The economic boom of the first six years in this period was fueled by substantial inflow of foreign loans combined with the pro-private sector policy of the government that included a number of incentives for investment, exports—reflected by the bonus voucher scheme—and import liberalization for the industrial sector. The Second Five-Year Plan (1960–65) envisaged removal of administrative controls and maintenance of monetary discipline and price stability to provide a favorable macroeconomic environment for the private sector. The rapid growth of the industrial sector was due largely to the gradual liberalization of the economy in the 1960s. The industrial bias of the 1950s was maintained by an overvalued rupee—maintained by a complicated multiple exchange rate regime—and control on agricultural prices to subsidize food

---

[27]Industrialization was encouraged in West Pakistan while East Pakistan remained an exporter of jute. The transfer of foreign exchange, earned mainly by the jute exports from East Pakistan, to the industrialists in West Pakistan became an important source of the interregional conflict. In West Pakistan, industrialization was promoted at the expense of agricultural production. See Noman (1990) and Husain (1999).

[28]The second army regime undertook several constitutional reforms to accommodate the demands of political parties in the country. However, it failed to formulate the Fourth Five-Year Plan (1970–74) because of the unbridgeable differences between the economists from East and West Pakistan.

for the urban population. However, a number of government policies benefited the agricultural sector, especially in West Pakistan.[29]

The fiscal stance and monetary policy of the first military regime remained conservative throughout the period. Output growth was accompanied by reasonable price stability. The government maintained a tight control on expenditure and used foreign resources for a large part of the capital expenditure. By 1965, foreign aid had increased from 2 to nearly 7 percent of GDP. However, the high growth rate did not have significant impact on domestic savings. The ISI policy pursued in the 1960s, though it diversified production and initially enhanced export earnings, used imprudently high levels of effective protection for the domestic industry, resulting in increased dependence on imports and industrial inefficiency.[30] There was progressive deterioration in the balance of payments and a long-term bias against manufactured exports. The rapid growth of the economy in the 1960s was accompanied by increased (income) poverty, particularly in the rural areas, increased interregional disparity between East and West Pakistan and industrial concentration, and a highly distorted industrial structure.[31] The economy in East Pakistan grew more slowly and private investment was less responsive to the growth in public expenditure. In addition, the urban wage workers did not share in the benefits from rapid industrial growth as reflected by the stagnant real wage.

3. Populist ("socialist") development (1972–77)

The elected government in Pakistan started in 1972 with a populist economic and social agenda to redress the grievances of the rural and urban poor (peasants and wage workers), reduce the land and industrial concentration, and restructure the power of the civil and military bureaucracy. Some of the radical institutional reforms and ad hoc economic policies of the government, however, significantly lowered the annual growth rates in the agriculture and (large-scale) manufacturing sectors to 2 and 5 percent, respectively. The aggregate annual growth rate of about 5 percent was due mainly to the growth of the service sector, especially defense and

---

[29]These policies have received much attention in terms of their impact on different groups (classes) involved in the agricultural sector. Many have argued that the major beneficiaries of rapid agricultural growth in the 1960s were the large and middle-size farmers, and the small landowners and landless tenants were perhaps its victims. See Zaidi (1999) for the lively debate of these issues.

[30]Noman (1990) cites several studies of the industrial structure of Pakistan in the 1960s giving ample evidence that state protection had inhibited the development of an internationally competitive industrial sector.

[31]The government's single-minded focus on the growth of GDP, and its tolerance for increased income inequality to generate high levels of savings and investment, was clearly expressed in the Second Five-Year Plan (1960–65) document. The fact is that the level of domestic savings remained low and foreign loans and grants accounted for a large part of the increased investment. The income differences between East and West Pakistan rose from 30 percent in 1958 to about 61 percent in 1969 (Noman, 1990).

public administration. The agriculture sector was also damaged, especially after 1973, by natural calamities, including floods, drought and unprecedented pest attack. Even so, there is evidence that absolute poverty fell substantially in both rural and urban areas of Pakistan, but income inequality increased slightly during the 1970s.

In the first two years (1972–74), the government undertook its most radical structural and institutional reforms. The reforms included nationalization of private enterprises in basic industries, processing and vegetable oil industries, banks and insurance companies, and export trade of cotton and rice, and land reform with appropriation and redistribution of agricultural land and adjustments in the legal rights of sharecropping tenants. The government also devalued the rupee and significantly increased the controlled (procurement) prices of major crops in 1972. These policy actions initially helped increase exports, foreign exchange reserves, and agricultural production. However, by 1976 the adverse economic effects of nationalization started to appear in the form of multiplicity of public enterprises and flight of private capital. Public sector enterprises were used as an instrument through which power and income could be redistributed in favor of those with access to the nationalized industry. The public sector monopoly in many industries also helped increase the inefficiency of enterprises and drain the public treasury. The private sector enterprises that were not nationalized were also adversely affected by the government's industrial relations policy favoring organized labor.

The government's agricultural policy included land reform, which in 1972, together with devaluation of the rupee, significantly increased the procurement prices of crops and subsidy on fertilizer, seeds, irrigation water, and credit. The restructuring of the land tax system, intended to promote the use of modern technology, included generous tax deductions for purchases of farm machinery and for land development. The land reform program was ineffective in breaking up land concentration, though it did provide increased support to the landless tenants. Its effect was insignificant as anticipated because of the flaws in its design and implementation. The agriculture sector's poor performance can be attributed to several factors.[32] In addition, the terms of trade for agriculture deteriorated during this period.

The macroeconomic conditions were unstable throughout the period, reflected by a high rate of inflation and large budget and current account deficits. There was massive expansion of state expenditure on public sector investment, employment creation, consumption and production subsidies, debt servicing, and social services. The resulting fiscal deficit was financed largely by increased money supply. The inflation rate was brought down, from about 30 percent in 1974 to 10 percent in 1977 by a series of measures to reduce the budget deficit and credit controls. The balance of payments problem was due to the wide gap between exports and imports; exports doubled but imports quadrupled during 1971 and 1977. The government had to fill the gap by increased foreign loans, including commercial loans, leading to a substantial increase in the size of debt and its burden on the economy. The remittances from Pakistani workers in the Middle

---

[32]These factors were as follows: uncertainty created by the land reform, endemic shortage of agricultural inputs, compulsory procurement of output of major crops at prices far below international prices, increased prices of imported inputs due to the devaluation of the rupee, increased price of energy (imported oil), and natural calamities.

East rose sharply—from $136 million (17 percent of export earnings) in 1972/73 to $1.2 billion (41 percent of export earnings) in 1977/78—and were used to partly fill the foreign exchange gap.

4. Growth with a receding state (1977–88)

This phase of the economy was very different from that of the previous five to six years in several respects. First, the economy grew annually at an average rate of nearly 7 percent, with a robust growth in agriculture (at 4 percent per year) and manufacturing industry (at about 9 percent per year). Second, the military government that replaced the elected government reversed the policy of control and regulation of the economy, providing greater room and incentives for the private sector in agriculture, trade, and industry. Third, in the early 1980s the government negotiated agreements with the International Monetary Fund (IMF) and World Bank for economic assistance to help it reduce the twin current account and fiscal deficits and restructure the economy. Fourth, the economy was assisted greatly by the transfer of foreign exchange from Pakistani workers in the Middle East. Fifth, the government received substantial foreign economic and military aid for its involvement in the Afghan war in the 1980s, but the country played reluctant host to about 3 million Afghan refugees as well. Finally, while the illicit trade in guns and drugs may have made a significant contribution to household incomes, it also added significantly to social and political instability in the country.

A major change in the economic management of the country was the reintroduction of five-year development plans, starting with the Fifth Plan (1978–83). However, a more significant policy change was the program of "Islamization" of the economy in 1980. Its two major ingredients were interest-free banking and commerce and institutionalization of *zakat* and *ushr* levies on all (Sunni) Muslims in Pakistan. The major structural adjustment reforms—intended to improve the long-term efficiency of the economy by expanding the role of the private sector—were also started in 1980 with the support of the IMF and World Bank. The IMF gave the first Extended Fund Facility (EFF) to help Pakistan establish a new exchange rate regime, rationalize prices, liberalize trade, and reform the budgetary process, financial institutions, and the public sector. The government delinked the rupee from the U.S. dollar in 1982 and initiated the deregulation of a large number of products, denationalization of industries, liberalization of imports, and export enhancement schemes.[33]

It should be added that the international economic environment was far more favorable to economic growth in the 1980s than in the 1970s. The depreciation of the rupee in 1982 and the managed float system allowed the government to use the exchange rate as a major policy instrument. In addition, the infusion of war-related economic and military aid—reaching $2 billion annually by the mid-1980s—helped to mitigate the low level of domestic savings. Added to these flows were the remittances from Pakistanis, particularly workers in the Middle

[33]See Khan (1994) for a list of major changes introduced by the government throughout the 1980s with respect to the deregulation of markets and reduction of producer and consumer subsidies.

East. These remittances averaged nearly $3 billion a year in the 1980s, equal to 10 percent of GDP and 45 percent of the current account receipts.

Several structural weaknesses persisted in spite of the high economic growth experienced in the 1980s.[34] The rate of domestic savings rose only marginally, from 8 to 9 percent of GDP, whereas the level of domestic investment was at 17 percent of GDP. The high economic growth was sustained by a rising budget deficit financed by foreign and domestic (nonbank) borrowing. At the end of fiscal 1987/88, the last year of Sixth Five-Year Plan (1983–88), Pakistan was confronted by a financial crisis. The budget deficit increased to 8.5 percent of GDP, annual inflation accelerated from 4 to 10 percent, the current account deficit doubled from 2.1 to 4.3 percent of GNP, the debt-service ratio increased to 28 percent of export earnings, and the foreign exchange reserves fell by half, to less than three weeks of imports.

In the 11 years of military rule, the high rate of economic growth was accompanied by a significant fall in absolute poverty and reduced income inequality. A large part of the explanation is probably the impact of remittances and rapid growth of agriculture and small-scale industries. However, the government's expenditure for the social sector—education and health in particular—and physical infrastructure did not rise to meet the growing demand and to facilitate the ongoing growth of the economy. The inadequacy of the social and physical infrastructure, with serious macroeconomic imbalances, was a major legacy of this period of rapid economic growth.

5. Crises and structural adjustment programs (1988–2000)

As indicated earlier, Pakistan started to experience almost unprecedented political instability and changes in governments from August 1988, eventually ending in the imposition of military rule in October 1999. During this period, the growth of GDP fell to 4.7 percent annually, and the agricultural sector grew at just under 5 percent. The low growth of GDP was largely due to the poor performance of the large-scale manufacturing sector. Income poverty increased significantly, as did income inequality. This deterioration in the living conditions could be attributed to low and unstable growth of GDP, persistence of macroeconomic imbalances, reduction in remittances, lack of social safety nets, structural adjustment programs adversely affecting public sector employment and consumption subsidies, and poor governance. The macroeconomic imbalance persisted throughout the period, reflected in an annual budget deficit of about 7 percent of GDP, a double-digit inflation rate, and a current account deficit of nearly 5 percent of GDP—it was above 6 percent in the mid-1990s.

It is worth noting that Pakistan's economy was buffeted by many factors not entirely related to government policies. Important among these were the 2 to 3 million Afghan refugees

---

[34]They included heavy regulation of the economy with government ownership, inherited from the 1970s, industrial licensing and price controls, a protective regime that created distortions and discouraged competitiveness of exports, a weak public resource position with a narrow and inelastic revenue base and high current expenditure, a high level of financial repression with public ownership of banks and credit controls, and a rapid growth in the burden of debt.

who stayed in Pakistan; withdrawal of U.S. aid in 1990 after the end of the Afghan War in 1989; the Gulf War of 1990 that increased the price of oil, reversed the flow of migrant labor and reduced remittances from and exports to the Middle East; unrest and violence in urban Sindh until the mid-1990s; and inclement weather—floods and severe drought in three years—with pest attack on cotton in 1993. In addition, following the nuclear tests in 1998, the G-8 countries immediately suspended all multilateral and bilateral economic assistance to which the government responded by depreciating the rupee, imposing controls on the movement of capital, and freezing the foreign currency accounts of Pakistani residents and nonresidents. Political uncertainty, together with these actions, induced significant capital flight and eroded investor confidence, adversely affecting the flow of foreign direct investment.[35]

In spite of the structural adjustment programs negotiated with international donors in the 1990s, the economy stayed in a state of imbalance with increased short-term external borrowing and a high budget deficit and inflation. From 1988 to 1999, the elected governments maintained an on and off relationship with the IMF and donors because of their inability to restrain the resource imbalance and to implement the structural reforms on a sustained basis. In addition, while government revenue improved a little, the growth of current expenditure remained high while the development expenditure was reduced significantly.[36] The rate of domestic savings first rose significantly, from about 9 to 13 percent, but declined in the second half of the 1990s. Domestic investment was seriously hurt by political uncertainty, erratic government policies, and rising incidence of rent seeking. Remittances fell almost consistently from $1.9 billion in 1988/89 to $984 million in 1999/2000. Unstable growth of exports and reduced capital inflows affected the level of foreign exchange reserves, which rose in the first half of the 1990s and fell in the second half, to less than three months of imports at the end of 1998. Pakistan's foreign debt more than doubled, to $36 billion during 1988–2000; it rose from 42 percent of GDP in the late 1980s to nearly 58 percent at the end of 1990s.[37]

An important reflection of the failure of successive governments to follow coherent or consistent economic policies during this period was the erratic formulation and implementation of the five-year plans. However, they maintained some continuity in their commitment to structural reforms because of the financial crisis and dependence on foreign assistance. The military government since 1999 has focused its efforts on hastening the process of institutional

---

[35]Pakistan did not receive much foreign direct investment until the late 1980s. Foreign direct investment rose from $210 million in 1988/89 to $1.1 billion in 1994/95 and then fell to about $450 million in 1998/99. Most of this investment was in the energy sector. Portfolio capital increased in significant proportion only in four years from 1991 (Anwar 2001).

[36]See Khan (1997) for a detailed analysis of government budgets in the 1990s.

[37]The nominal exchange rate fell by over 100 percent in the second half of the 1990s, and the governments shifted from a controlled exchange rate to a unified market rate in 1999 and then to a free-floating rate in 2000. The devaluation of the rupee did not have much effect on exports but apparently did reduce the growth of imports.

reforms for good governance and developing coherent policies to promote growth and reduce poverty.[38]

V. INCOME GROWTH AND POVERTY REDUCTION

The experiences of economic growth in Malaysia and Pakistan, analyzed in the preceding section, highlight several important differences. In Malaysia, a high and stable rate of economic growth has been generated by:

- reasonable political stability and continuity in economic reforms and policies;
- high levels of domestic saving and investment;
- macroeconomic stability;
- openness of the economy to trade and foreign investment and flexible domestic markets; and
- high level of public investment in building the physical and social infrastructure (health and education) of the country.

In contrast, the process of economic growth in Pakistan has been less robust and stable because of several factors, including the following:

- political instability and lack of continuity in economic reforms and policies;
- low levels of domestic saving and investment;
- unstable macroeconomic conditions;
- high level of protection to domestic industries and discrimination against primary production and exports; and
- low levels of public investment in the physical and social infrastructure.

The analysis in this section focuses on the structure of growth and public policies to reduce poverty and income differences in the two countries.[39] It will be argued that in Malaysia, particularly after the ethnic riots of 1969, successive governments have more or less consistently pursued relatively effective economic and social policies to reduce the overall poverty and the interethnic disparities in income, education, employment, ownership of capital assets, and

[38]In the 1990s, the elected governments did not seriously address the issue of bad governance and corruption. They actively pursued and even persecuted real or perceived opponents under the pretext of "accountability." It is fair to say that the major legacy of these governments included unpaid bank loans worth billions of dollars, rapid growth of "sick" industries whose owners did not personally suffer, unprecedented politicization of the bureaucracy, increased centralization of decision-making, and political determination of a large part of the public sector expenditure.

[39]Generally, in agrarian economies poverty is more intense and widespread in rural than in urban areas. For a discussion of issues related to rural poverty in developing countries, see Khan (2000).

entrepreneurship. These policies have been successful in maintaining stable and high growth rates and reducing poverty. The national political consensus on these issues has been implemented within the framework of medium term (five year) and long-term (perspective) plans. In Pakistan, on the other hand, governments have failed to develop a coherent national consensus, reflected by political instability, and have not pursued sustained viable policies that could generate sustainable growth and poverty reduction.

A. Poverty Reduction Policies in Malaysia

In the 1950s, poverty in Malaysia was concentrated among the rural Malay and orang asli or the indigenous populations. These groups were at the bottom of the distribution of income and wealth because they had few capital assets (which were in the hands of foreigners and non-Malay groups) and low levels of education and skills, and were employed mainly in low-productivity rural activities (agriculture and fisheries). After independence in 1957, the Alliance government started making significant investment in building the rural physical and social infrastructure, including education for women. It undertook a large-scale program of land development and settlement to give land to smallholders and to improve land productivity. In addition, incentives and loans were given to encourage the establishment of private small-scale rural industries, and price subsidies were given to small farmers to reduce the cost of production and to induce the transfer and diffusion of new farm technology. All of these investments and policies were undertaken to protect the rural Malay population.

However, the urban riots of 1969 forced the government to review its laissez-faire policy to promote economic growth in Malaysia. In the 1960s the growth process was modest in its effect on the structure of the economy, had little if any impact on poverty, and certainly widened rather than reduced income and wealth inequalities within and between the ethnic groups (Jomo, 1990; Drabble, 2000). This review resulted in the formulation of New Economic Policy (NEP), incorporated in five-year plans starting with the Third Plan (1971–75), for the next two decades to restructure the economy and society. The crux of this policy was to promote rapid economic growth with reliance on private markets and with an activist state working on behalf of the Malay population to reduce poverty and interethnic disparities. In 1991, after two decades of NEP, the government started the New Development Policy (NDC) to reduce the state ownership and control of enterprises, continue to provide an enabling environment for rapid economic growth, and to maintain support for the Malay population through promotion of education and development of new skills.

The impressive record of poverty reduction in Malaysia—from 50 percent of the population in 1970 to 8 percent in 2000—can be attributed to basically two factors. The first factor was rapid economic growth with macroeconomic stability, promotion of labor-absorbing industries, open economy to trade and investment, high level of public sector investment in building the country's physical and social infrastructure, and proactive policy to provide increasing opportunities for education, employment, and enterprise for the Malay population. The second factor was that the government's poverty reduction programs were targeted at specific groups in both rural and urban areas, including redistribution of assets, access to credit, subsidies for education and health, and safety nets for the very poor. It is noteworthy that the government generally followed policies that promoted stable and high growth rates, helped

reduce interethnic and intra-ethnic inequalities and reduce poverty across ethnic groups in both urban and rural areas (Drabble, 2000; Barlow, 2001).

Improved distribution of income because of the rising share of wages in family income and a more even distribution of wages, resulting from the broad expansion of education and improvement in literacy, have accompanied growth in Malaysia. Strong demand for labor contributed to rising wages—low inflation helped the real wage to rise significantly—supported by the growing productivity of a more skilled workforce. The expansion of government employment at lower levels also helped increase the demand for wage labor. At the same time, Malay women entered the formal labor market in significant numbers, finding employment in the garment and electronics industries. The increased ability of the Malay to adapt to changing occupations and easy migration on the Peninsula maintained flexible and nonfragmented labor markets without large wage disparity between the rural and urban areas and across sectors (World Bank, 1995b). Perhaps the most important overall factor was the shift of large numbers of workers out of the traditionally low-paid rural occupations into better paid modern sector employment.[40] Finally, the government's support for the Malay population was no less important in promoting economic growth with reduced income inequality and poverty. The policy included public sector employment, increased share in the ownership and management of private businesses, greater access to education and training at all levels, investment in building the rural infrastructure, and incentives for agriculture and fisheries.[41]

The government used several targeted programs to alleviate poverty. In the rural areas, programs included land distribution and settlement, replantation of low-yielding rubber trees on small plantations, and integrated agricultural development projects in each state focusing on a package of modern inputs, technologies, infrastructure, and support services to assist traditional peasants (small farmers) to increase productivity and income. In addition, it provided incentives for the expansion of small-scale rural industries and invested in the provision of basic services and utilities, such as education, health care, potable water, and electricity. In the urban areas, the programs targeted squatter resettlements and low-cost housing.

The government's targeted policies differentiated between the poor and the very poor, the latter defined as those with less than one-half of the poverty-line income (World Bank, 1991).[42]

[40]Unemployment in Malaysia fell to about 2–3 percent by the late 1980s. Since then over one million foreign workers have met the shortage of labor in certain sectors (World Bank 1995b; Barlow 2001). The impressive record of employment should be seen in the context of rising labor force participation since the mid-1970s.

[41]The Council of Trust for the Indigenous People (MARA) has been the most important institution used by the government to provide support to Bumiputeras. See, for example, Mehmet (1986) Gomez and Jomo (1999, 2000).

[42]A variety of safety nets exist for low-income households, including retirement and old-age benefits, private charity (including zakat among Muslims), and intrafamily transfers. The Malaysian government actively encourages private transfers.

In 1973, nearly 16 percent of the population—and 15 percent of households—was categorized as very poor, with a vast majority in rural areas (World Bank, 1991). The proportion of the very poor had fallen to 1.5 percent by the end of 1999 (Eighth Plan, 2001–05). The important difference between the programs for the very poor—started in the late 1980s—and the government's general poverty alleviation programs is that only those households belonging to the very poor category can participate in the Development Program for the Hardcore Poor (PPRT). PPRT includes several components aimed at children, mothers, elders, and heads of household. Most of them emphasize income-generating activities, training, and basic amenities (nutrition and health). The Malaysian government has also contributed substantial funds to the Amanah Ikhtiar Malaysia (AIM) project, operated by a private trust, to give small interest-free loans to very poor households for production activities. In the Seventh Plan period (1996–2000), AIM provided loans to about 23,000 poor families.[43]

B. Poverty Reduction Policies in Pakistan

The highly unstable economic growth and its structure are the primary factors explaining changes in poverty in Pakistan. The growth-poverty links were weak because of the structural factors and policies pursued for economic growth and poverty reduction.[44] As indicated in the previous section, the growth process in Pakistan has been characterized by dependence on foreign resources, particularly aid and remittances, low investment in infrastructure and human resources development, capital-intensive and highly protected industries, narrow base of manufactured exports, severe macroeconomic imbalances, and political instability. The periods of strong overall growth were associated with robust agricultural growth and good performance of the large-scale manufacturing industries. Agricultural growth is still a strong indicator of overall growth in Pakistan, but it has been affected by the moods of nature as much as by government policies. The performance of large-scale manufacturing industries has been constrained by inadequate private investment and high levels of protection. In a country with serious structural and institutional problems, particularly affecting the rural economy, the links between economic growth and poverty reduction cannot be strengthened without redressing those problems effectively.

The governments, at least in the 1950s and 1960s, thought that economic growth would have strong trickle-down effects and reduce poverty. In the 1950s, the growth process was weak

[43]The government has used a separate antipoverty program for the orang asli, including regrouping in the designated Central Areas from 1980, involving sedentary commercial farming. The progress in lowering the poverty level among this group has been slow because of the widespread reluctance of the community to give up the traditional way of life.

[44]Easterly (2001) has suggested two interesting hypotheses for this phenomenon in Pakistan. First, the state is far too centralized and dominated by a patriarchal elite that feels threatened by the development (social progress) of the poor and women, particularly in rural areas. Second, Pakistani leaders have failed to develop a cohesive national identity and may have contributed to the polarization of the society along ethnic, linguistic, and religious lines to serve their short-term goals.

and the successive governments made almost no attempt to restructure the highly concentrated land system on which the growth of agriculture—when it was still the mainstay of the economy—largely depended. Also, they pursued policies that encouraged the development of capital-intensive industries with high levels of protection at the expense of agriculture. In the 1960s, the military government concentrated its efforts—with the help of foreign donors—on industrial and agricultural growth based largely on incentives for the large-scale industries and large landowning farmers. The strong support given to capital-intensive industries and a bimodal strategy for agriculture adversely affected labor absorption and wages.

In the five years following the dismemberment of Pakistan in 1971, the populist agenda of the elected government and its policies focused on redistribution and poverty alleviation while weakening the growth process by excessive public control of the economy. In the 1980s, the military government reversed the policies of the previous government on economic growth and made marginal attempts at poverty reduction through targeted programs. The fortuitous inflow of foreign resources—remittances and aid—during this period probably did more for growth and poverty reduction than did government policies since these policies left the country with a financial crisis by 1988. The elected governments in the 1990s were more or less forced to direct their attention to improve human resources and social services, particularly in rural areas, as part of the structural adjustment program. In addition, they used public resources in a variety of targeted programs for poverty reduction, but their design and implementation were politically determined resulting in considerable rent seeking and waste.

Since the beginning of Pakistan, poverty has been a largely rural phenomenon, and successive governments have attempted programs for rural development, a catchphrase for poverty alleviation without radical reforms of the highly differentiated agrarian structure. In the formative phase (1947–58), the successive governments not only discriminated against the agriculture sector but missed their chance to introduce structural reforms in the ownership of land and tenancy rights in spite of their pronouncements in a number of committee reports and the First Five-Year Plan document. In the early 1950s, the tenancy reforms in the provinces for the first time gave some legal rights to tenants. In 1959, the first military government undertook a program of land redistribution, breaking up *jagirs*, to reduce the influence of the large zamindars and jagirdars and create a new (progressive) class of farmers in the country. But this program did not significantly alter the concentration of landownership; its major beneficiaries were not the small landowners (the near landless) and landless peasants, including tenants and wage workers. It was followed by another land reform program undertaken by the elected government as part of its populist agenda in 1972. While the impact of this program on land redistribution was marginal, its tenancy legislation had a favorable impact on the legal position of the (sharecropping) tenants. The third land reform program, to lower the ceiling on landholdings, was introduced by the same government six months before its removal in 1977. Little progress was made in implementing this program; the military government that followed made several amendments to facilitate the development of large-scale private farms.[45]

[45]See Khan (1999) for a detailed analysis of land reforms and associated issues.

The impact of these reforms has been minimal in terms of land redistribution since only 300,000 persons, mainly small landowners and some tenants, received 1.5 million hectares of land and not all of it in good condition for cultivation. These numbers are very small in proportion to the number of landless peasants and small landowners and the farm area of the country. An important aspect of the land reforms was the absence of a follow-up or support system for the new landowners. As for the landless wage workers, they did not benefit directly from any of these reforms. The agrarian structure in Pakistan remains differentiated, with high concentration of land, decline in the sharecropping tenancy, fragmentation of small landholdings, and conversion of small cultivators—tenants and landowners—into wage labor looking for work in both rural and urban areas.

Successive governments have undertaken rural development programs ostensibly aimed at building the physical infrastructure, providing part-time employment to the landless and near-landless peasants, and transferring new agricultural technologies. A common feature of all of these programs was the domination of the government bureaucracy, with almost no involvement of the intended rural beneficiaries. The rural elite and the government officials were the major participants, activists, and beneficiaries in these programs. Genuine community participation in the state-sponsored programs was constrained by the lack of empowerment of the landless and small (landholding) cultivators and wage workers. The evaluations of these programs—including the Village AID program, Rural Works Program (or People's Works Program), and Integrated Rural Development Program—have revealed that they made some contribution to the physical infrastructure and temporary job creation at a high cost, but they had little lasting impact on the rural poor.[46] However, in the 1970s, the populist government gave material support to the urban wage workers in the form of subsidies and small plots for homes, including investment in urban squatter settlements (*katchi abadis*), and provided similar support to the landless peasants and rural wage workers.[47]

By the late 1980s it was widely recognized that in Pakistan a serious imbalance existed between economic growth and human development and that state-sponsored programs did not work well without the active participation of the intended beneficiaries.[48] Consequently, in

[46]See World Bank (1995a), Mahbub ul Haq Center for Human Development (1999), and Naseem (2001).

[47]It should be added that this government increased the development expenditure quite significantly and a large part of it went into education and health in both rural and urban areas. Also, it increased the subsidized credit for the small rural and urban producers, gave support to the employment of the educated youth and raised the nontargeted urban food subsidies.

[48]In the 1990s, the elected governments, following the Prime Minister' Five Point Program of the mid-1980s, undertook several much-publicized programs claiming their targets to be the rural and urban poor. These programs included the People's Program, Youth Investment Promotion Society (YIPS), People's Tractor Scheme, Tameer-i-Watan (Build-the-Country) Program, and Self-Employment Scheme. For a detailed study of these and related programs, see Mahbub ul Haq Center for Human Development (1999) and Naseem (2001).

1992/93 with the support of the World Bank, the federal government launched the Social Action Program (SAP) to focus on expanding basic education, health care and water supply, particularly in the rural areas, with emphasis on female participation, to be implemented through participatory community organizations.[49] In addition, the government provided financial support to nongovernmental organizations (NGOs) to help the rural poor to form community organizations to become active agents to improve and build the local productive infrastructure, graft new technology, and access small loans for farm and nonfarm enterprises. A number of rural support programs based on the partnership between NGOs and community organizations have been expanding their activities throughout the country. It seems that community organizations can be an important institution for the implementation of state-sponsored programs intended to improve the quality of life in the rural areas and urban katchi abadis. The role of these organizations has become particularly important for enabling the rural and urban poor to receive small loans through the government-organized Pakistan Poverty Alleviation Fund (PPAF) and the Khushali Bank (KB). These two institutions were established in 1999 and 2000, respectively, with the financial support of the World Bank and the Asian Development Bank, and they have started channeling their resources through NGOs and community organizations in both rural and urban areas.[50]

The first nationwide safety net was established in 1983 after the promulgation of the Zakat and Ushr Ordinance in 1980 and its amendment in 1981.[51] The purpose was to collect a fixed proportion of the personal wealth and agricultural output of Sunni Muslims at the end of each year and transfer the proceeds to the needy or indigent Muslims. A decentralized organizational structure was established for the assessment, collection, and distribution of the zakat and ushr levy in both rural and urban areas. The recipients of assistance from the zakat fund included eligible individuals considered needy and institutions involved in the social sector

---

[49]The SAP has been implemented in two phases between 1993 and 2000, involving an expenditure of $8 billion—of which one-quarter was provided by foreign donors—or about 1.6 to 2.5 percent of GDP. It has received mixed reviews for its approach, implementation, physical achievements, and impact on rural poverty. See Pakistan (2001), Zaidi (1999), Naseem (2001), and Easterly (2001).

[50]All state-sponsored programs to improve the quality of life of the rural and urban poor have come under critical scrutiny for their low level of effectiveness and impact on the intended beneficiaries. Serious concern has been expressed about the sustainability of participatory community organizations and NGOs, availability of resources for recurring expenses, cost sharing, and the maintenance of the infrastructure and services (Zaidi 1999; Naseem 2001).

[51]Until then the only safety nets for the poor in Pakistan were the intrafamily transfers and private charity. The subsidized food program for the urban populations—it was established in the early 1940s in British India—was used as a family (household) ration for grains, sugar, and cooking oil at lower than market prices. The food rationing system was abolished in the mid-1980s. Its major beneficiaries were employees of the provincial Food Departments, owners of floor mills, and traders and processors, and it discriminated against the rural population. Gradually governments reduced the general food subsidy even in the urban areas.

services identified by the local zakat committees. The assistance was given in different forms, including monthly allowance for subsistence, educational stipends, rehabilitation and marriage (dowry) grants to needy individuals, and grants to charitable social and educational institutions. The zakat fund had accumulated about Rs. 20 billion by the end of 2000, with annual collections of Rs. 4 billion since 1998, and reaches about 2.4 million eligible widows, orphans, destitute, and sick individuals (Pakistan, 2001). In addition to the zakat fund for the needy Muslims, in 1992 the government established the Pakistan Bait-ul-Maal (PBM) as a safety net for those not covered by the zakat system. Its funding is based on grants from the federal government and the Central Zakat Fund. PBM provides assistance to individuals in the form of cash and food (wheat floor) subsidy. The funds for this program fell sharply between 1996 and 1999, but the government revitalized the program in 2000 with additional funds set aside from the General Sales Tax. It is estimated that 250,000 individuals benefited from this program in 1999. The government claims that the number rose to 1.2 million at the end of 2000 (Pakistan, 2001).[52]

VI. POLICY GUIDEPOSTS FOR ECONOMIC GROWTH AND POVERTY REDUCTION

Macroeconomic stability, competitive markets, and adequate public investment in the physical and social infrastructure are generally agreed to be important requirements for sustained economic growth. Likewise, the structure and quality of growth are accepted major factors in reducing poverty. In this regard, the experiences of Malaysia and Pakistan surveyed in this paper have highlighted several important policy guideposts for sustainable economic growth and poverty reduction.

- A stable political system—reflected by competing interests with freedom to participate—that is capable of resolving conflicts without violence or breakdown of rule of law is probably one of the most important factors for sustained economic growth. This system also requires an efficient and relatively clean public bureaucracy and an independent and responsive judiciary. In addition, political will, backed by institutional capacity to enforce, is needed to provide an institutional and structural environment for individuals to take risk and to use adequate level of public resources for building physical infrastructure and human capital. Finally, governments should maintain consistency in the design and implementation of their policies since erratic and uncertain policies can have serious deleterious effects on private decisions about consumption, savings, and investment. The capacity of governments to respond quickly and to make appropriate policy adjustments is an integral part of good governance for sustainable growth and poverty reduction.

- Prudent monetary and fiscal policies contribute significantly to the levels of saving and investment. These policies include financial deepening and fiscal incentives for the

[52]Reviews of the zakat and bait-ul-maal programs show that their effectiveness is constrained by cumbersome procedures, lack of transparency, and substantial waste and leakage (World Bank, 1995a; Naseem, 2001).

private sector to raise capital. The revenue needs of the government, in which the expenditures on physical and social infrastructure receive the most attention, should be met by a tax regime that is fair, efficient, and flexible.

- The regulatory framework and policies should be aimed at reducing concentration in the marketplace for products and resources, opening up markets for domestic and foreign trade, and facilitating domestic and foreign investment. Price distortions, because of government interventions, not only misdirect resources but also tend to discriminate against certain groups and sectors in the economy. Protection to industries and enterprises without gradual exposure to competition leads to an inefficient industrial structure that may also use more of the relatively scarce resources.

- Public ownership and control of business enterprises often do not serve the public interest because of soft budget constraints, resulting in significant inefficiencies and rent seeking.

- Public expenditure should concentrate on goods and services, especially basic education, health care, and physical infrastructure, to facilitate the development of human resources and to create opportunities for low-income and poor households to raise their incomes. High levels of expenditure on defense services, repayment of domestic and foreign debt, and public sector enterprises or services deprive society of scarce resources needed for investment in productive activities and social services.

The poor in both rural and urban areas tend to benefit from sustained and high rate of growth only if they are given the opportunities to build or improve their physical, financial, and human assets. Adequate public investment in basic education, health, sanitation, and physical infrastructure, and a stable macroeconomic environment for saving and investment, make a great contribution to this end. In addition, governments should use targeted programs for the poor that are not costly and that can be implemented effectively. Since the rural and urban poor are not homogeneous, it is important to know their differentiating characteristics in order to design and implement successful pro-poor programs, including effective social safety nets. For example, in the rural areas, land reform programs that include land redistribution and adjustments in tenancy rights can have significant impact on poverty reduction. Finally, a flexible and decentralized delivery system for most public sector services seems to work far better than a centralized (bureaucratized) system in which the intended beneficiaries play little or no role.

Table 1. Economic and Social Indicators for Malaysia, 1960–2000

Indicator	1960	1965	1970	1975	1980	1985	1990	1995	2000
Population (millions)	8.1	9.4	10.9	12.3	13.9	15.6	18	20.7	23.3
Urban Population	27	30	33	38	42	46	50	54	56
GDP/Capita (US$)	975	1165	1371	1712	2297	2587	3104	4310	4600
GDP[PPP]/Capita (US$)				1278	2412	3280	4763	7491	8209
Percent of GDP									
Agriculture	41	32	31	28	23	21	17	13	9
Industry	19	27	27	35	41	39	42	41	46
Manufacturing	8	10	12	18	22	19	24	26	33
Services	40	41	42	37	36	40	41	46	45
Percent of Labor									
Agriculture	63	60	54	48	37	30	26	20	17
Industry	13				24	24	28	32	33
Services					43	50	54	48	51
Percent of Exports									
Primary goods	94	95	93	83	81	73	46	25	20
Manufactured goods	6	5	7	17	19	27	54	75	80
Percent of Imports									
Primary goods	58	48	43	38	33	28	18	14	15
Manufactured goods	42	52	57	62	67	72	82	86	85
Foreign Debt (US$ billions)			0.45	1.95	5.73	20.19	16.99	33.44	41.30
HDI (pre-1998)	0.330		0.471		0.687		0.794	0.832	
HDI (post-1998)				0.614	0.657	0.691	0.72	0.758	0.774
Poverty Ratio:									
National			49.3			20.7	17.1	9.3	8.1
Rural areas			58.7			27.3	21.8	15.6	13.2
Urban areas			21.3			8.5	7.5	4.1	3.8
Infant Mortality Rate	72	57	46	37	30	21	15	11	8
Life Expectancy (years)	53	56	62	65	67	69	71	72	73
Crude Birth Rate	44.9	41.6	36.5	32.8	31.2	31.7	27.1	25.9	24.5
Crude Death Rate	15.7	13.2	10.2	8.3	5.3	5	4.7	4.6	4.4
Total Fertility Rate	6.9	6.3	5.5	4.6	4.2	4.1	3.8	3.4	3
Population/Doctor	7020	6190	4310		3600	3175	2560	2153	1465
Public Expenditure on Health (percent of GDP)				1.8	1.5	1.5	1.5	1.2	1.5
Adult Literacy	52.8		58.5		60	73	78		89
Primary School Enrollment	96	90	88	91	93	100	99	93	95
Secondary School Enrollment	19	28	34	42	48	53	56	59	67
Public Expenditure on Education (percent GDP)		4.6	4.4	6.2	5.9	6.3	5.2	4.5	5.2

Note: The data in Tables 1 to 6 have been compiled from the databases and publications of the World Bank and IMF and the officials documents of Malaysia and Pakistan.

Table 2. Economic and Social Indicators for Pakistan, 1960–2000

Indicator	1960	1965	1970	1975	1980	1985	1990	1995	2000
Population (millions)	45.9	52.4	60.6	71	82.5	94.9	110.8	125.4	137.5
Urban Population	22	23	25	26	28	30	32	34	37
GDP/capita (US$)	181	225	275	274	318	384	448	500	515
GDP[PPP]/Capita (US$)				421	646	907	1363	1765	1834
Percent of GDP									
Agriculture	46	40	37	32	30	29	26	26	25
Industry	16	20	22	23	25	23	25	25	24
Manufacturing	12	14	16	17	16	16	17	17	17
Services	38	40	41	45	46	49	49	50	50
Percent of Labor									
Agriculture	61	60	59	58	53	52	51	47	45
Industry	16				20	20	20	19	20
Services					27	29	29	34	36
Percent of Exports									
Primary goods	73	64	43	44	50	35	30		16
Manufactured goods	27	36	57	54	50	65	70		84
Percent of Imports									
Primary goods	34	28	34		46	49	44		46
Manufactured goods	66	72	66		54	51	56		53
Foreign Debt (US$ billions)			3.09	5.12	10.19	14.72	18.20	33.70	35.79
HDI (pre-1998)	0.183		0.244		0.287		0.393	0.445	
HDI (post-1998)				0.343	0.37	0.403	0.441	0.476	0.498
Poverty Ratio									
National		40.2	46.5		30.7	24.5	22.1	31	33.5
Rural areas		38.9	49.1		32.5	25.9	23.6	32	34.8
Urban areas		44.5	38.8		25.9	21.2	18.6	27	25.9
Infant Mortality Rate	162	150	143	136	126	119	112	99	90
Life Expectancy (years)	43	45	48	50	53	56	58	60	62
Crude Birth Rate	51.3	49.9	47.4	45.4	43.7	43.3	41	35.1	32.7
Crude Death Rate	22	20	18		14	11.8	10.5	8.7	9.1
Total Fertility Rate	7.5	7.5	7	6.6	6.4	6.1	5.8	5.5	5.3
Population/Doctor	5400		4300	3900	3500	3153	2130	1756	1526
Public Expenditure on Health (percent of GDP)			0.6	0.7	0.6	0.7	0.8	0.6	0.7
Adult Literacy	15.4		20.7		26	29	35		45
Primary School Enrollment	30		35		40	46	55	60	65
Secondary School Enrollment	11	12	13	15	14	18	22	25	30
Public Expenditure on Education (percent GDP)	2.4	2.6	1.7	2.3	2.3	3.1	2.8	2.9	3

Table 3. Changes in Macroeconomic Indicators for Malaysia, 1956–2000

Indicator	1956-1960	1961-1965	1966-1970	1961-1970	1971-1976	1976-1980	1971-1980	1981-1985	1986-1990	1981-1990	1991-1995	1996-2000	1991-2000
Average Annual Rate of Growth (in percent)													
Gross domestic product	4.1	6.9	6.1	6.5	7.2	8.6	7.9	5.2	6.9	6.0	9.5	4.6	7.0
Agriculture	3.0			5.8	4.9	4.7	4.8	3.1	3.6	3.4	-0.2	1.4	0.6
Industry				11.4	6.1	10.9	8.5	5.8	8.6	7.2	11.1	4.7	8.3
Manufacturing				12.7	11.7	11.8	11.8	5.3	14.7	10.0	11.7	7.1	9.6
Services				8.2	9.8	9.0	9.4	5.6	6.9	6.2	11.0	3.8	7.8
Population	3.1	2.6	2.4	2.5	2.8	3.0	2.9	2.7	2.6	2.6	2.5	2.3	2.4
GDP/person	1.0	3.6	3.3	3.5	4.6	6.1	5.3	2.5	3.8	3.1	6.8	1.5	4.4
Inflation	0.4	0.5	1.4	0.9	7.4	4.5	6.0	4.7	1.8	3.3	4.0	3.1	3.6
Exports		4.2	7.6	5.9	6.1	10.0	8.1	7.3	14.1	10.7	16.2	7.2	12.2
Imports		3.4	5.0	4.2	6.6	15.8	11.2	5.0	14.7	9.9	19.2	0.7	11.0
Ratio to Gross Domestic Product (in percent)													
Domestic saving	27	23	24	24	27	34	30	31	35	33	38	46	41
Domestic investment	12	17	17	17	24	25	24	33	27	30	39	32	36
Private consumption	63	62	63	62	60	53	57	55	51	53	50	48	49
Private investment		10	11	10	18	17	18	18	17	17	25	14	20
Public consumption	14	16	17	16	17	17	17	18	15	16	13	12	13
Public investment		7	6	7	8	10	9	18	10	14	13	13	13
Government revenue	16	17	19	18	20	24	22	27	25	26	25	22	23
Government expenditure	13	20	23	21	28	30	29	38	30	34	25	22	23
Budget deficit	1.9	-3.6	-4.6	-4.1	-7.6	-6.0	-6.8	-10.8	-5.6	-8.2	0.1	-0.5	-0.2
Exports	51	43	40	42	40	51	46	52	66	59	83	105	93
Imports	38	40	36	38	39	45	42	55	59	57	85	93	88
Trade	89	83	76	80	79	96	87	107	125	116	168	199	182
Current account	0.7	3.3	2.2	-3.1	2.4	-0.4	-8.4	2.4	-3.0	-6.9	5.6	-0.6	
Foreign direct investment			2.2		3.1	3.1	3.1	3.7	2.9	3.3	7.0	3.8	5.6
Foreign aid			1.9		1.5	0.6	1.1	0.7	0.7	0.7	0.3	0.2	0.2
Foreign debt			10.7		13.9	23.4	18.6	49.6	57.8	53.7	37.8	48.3	43.0
Debt-service ratio			5.1		4.6	9.2	6.9	15.0	19.1	17.0	8.2	6.9	7.6
Real effective exchange rate	122.3	121.9	124.6	123.3	127.1	135.4	131.3	143.5	109.0	126.2	100.3	92.2	96.3
Government capital/ current expenditure					20.3	30.1	25.7	36.0	19.4	27.7	24.7	26.5	25.2

Table 4. Changes in Macroeconomic Indicators for Pakistan, 1956–2000

Indicator	1956-1960	1961-1965	1966-1970	1961-1970	1971-1976	1976-1980	1971-1980	1981-1985	1986-1990	1981-1990	1991-1995	1996-2000	1991-2000
Average Annual Rate of Growth (in percent)													
Gross domestic product	3.5	7.4	7.1	7.2	3.2	6.2	4.7	6.8	5.8	6.3	4.8	2.9	4.0
Agriculture	2.2	3.8	6.4	5.1	0.8	3.9	2.4	5.1	4.4	4.8	4.2	4.6	4.4
Industry		13.1	8.5	10.8	4.3	8.0	6.1	6.1	7.5	6.8	5.9	2.2	4.3
Manufacturing		11.7	8.2	9.9	3.5	7.7	5.6	7.6	7.0	7.3	5.8	2.2	4.2
Services		7.5	6.2	6.8	6.4	5.6	6.0	8.1	5.3	6.7	5.1	3.6	4.4
Population	2.5	2.7	2.8	2.8	2.6	2.7	2.6	2.9	2.6	2.7	2.5	2.5	2.5
GDP/person	1.0	4.5	4.1	4.3	-0.01	3.0	1.5	3.9	3.1	3.5	2.3	0.4	1.4
Inflation	4.0	2.5	4.6	3.5	16.1	8.7	12.4	7.2	6.8	7.0	11.2	7.3	9.3
Exports		8.6	9.4	9.0	-3.3	8.4	2.6	6.6	11.1	8.8	9.7	-3.2	4.0
Imports		8.5	9.0	8.7	-8.8	11.7	1.5	1.2	0.2	0.7	6.3	-0.5	3.3
Ratio to Gross Domestic Product (in percent)													
Domestic saving	10	10	10	8	8	8	7	10	9	13	11	12	
Domestic investment	11	19	15	17	13	18	15	17	17	17	18	15	17
Private consumption	82	79	76	77	79	81	80	82	75	77	71	75	73
Private investment		9	8	9	5	6	6	6	7	7	9	9	9
Public consumption	9	11	11	11	11	11	11	12	14	13	13	11	12
Public investment		9	7	8	8	12	11	9	9	9	9	6	7
Government revenue	11	12	15	13	13	15	14	16	18	17	18	16	17
Government expenditure	14	15	17	16	17	17	17	19	23	21	24	23	23
budget deficit	-4.2	-3.0	-7.3	-5.2	-6.8	-8.1	-7.4	-6.1	-7.4	-6.7	-7.7	-7.0	-7.3
Exports	4	9	9	9	11	10	11	11	14	12	16	16	16
Imports	6	15	15	15	18	21	19	23	22	22	23	22	22
Trade	10	24	24	24	29	31	30	34	36	35	39	38	39
Current account	-5.2	-4.3	-4.7	-5.9	-4.5	-5.2	-2.5	-2.9	-2.7	-4.3	-3.8	-4.0	
Foreign direct investment			0.2		0.1	0.2	0.1	0.3	0.5	0.4	0.8	1.1	0.9
Foreign aid		6.5	5.0		3.8	4.6	4.2	2.3	2.8	2.6	2.2	1.8	2.0
Foreign debt			27.5		43.3	38.6	41.0	42.0	42.3	42.1	53.0	58.1	55.6
Debt-service ratio			29.2		20.9	19.9	20.4	19.4	24.9	22.2	26.2	27.9	27.0
Real effective exchange rate		113.7	99.3	106.5	166.9	169.6	168.2	182.7	121.2	151.9	102.3	96.7	99.5
Government capital/ current expenditure					22.8	25.1	24.3	16.9	16.4	16.7	19.9	14.3	17.4

Table 5. Public Sector Development Expenditure in Malaysia, 1961–2000

Sector	2MAP	1MP	2MP	3MP	4MP	5MP	6MP	7MP
Economic Sectors	**81.0**	**78.1**	**84.1**	**78.8**	73.8	72.3	**67.1**	**60.1**
	(75.2)	(63.3)	(72.3)	(64.0)	(60.5)	(64.8)	(50.6)	(47.6)
Agriculture	21.5	32.5	25.2	27.1	19.9	23.2	15.4	10.4
	(20.0)	(26.3)	(21.7)	(22.0)	(16.3)	(20.8)	(11.6)	(8.2)
Industry & commerce	2.7	4.1	19.2	18.8	16.6	12.6	9.8	14.4
	(2.5)	(3.3)	(16.5)	(15.3)	(13.6)	(11.3)	(7.4)	(11.4)
Transport and communications	32.2	21.7	28.3	23.2	24.8	24.0	29.8	26.5
	(29.9)	(17.6)	(24.3)	(18.8)	(20.3)	(21.5)	(22.5)	(21.0)
Energy & water	24.5	19.9	11.0	9.3	12.1	11.4	10.3	7.1
	(22.8)	(16.1)	(9.5)	(7.5)	(9.9)	(10.2)	(7.8)	(5.6)
Social Sectors	**18.9**	**21.9**	**15.9**	**21.1**	**26.2**	**27.7**	**32.9**	**39.9**
	(17.6)	(17.7)	(13.7)	(17.1)	(21.5)	(24.8)	(24.8)	(31.6)
Education & training	10.9	9.6	8.0	9.0	12.3	18.0	17.8	25.1
	(10.1)	(7.8)	(6.9)	(7.3)	(10.1)	(16.1)	(13.4)	(19.9)
Health	4.6	4.3	2.1	1.7	2.0	2.9	5.8	4.8
	(4.3)	(3.5)	(1.8)	(1.4)	(1.6)	(2.6)	(4.4)	(3.8)
Housing	3.2	5.7	2.8	7.5	10.4	4.6	4.4	4.3
	(3.0)	(4.6)	(2.4)	(6.1)	(8.5)	(4.1)	(3.3)	(3.4)
Security & administration	(7.1)	(19.0)	(14.0)	(18.8)	(18.0)	(10.4)	(24.6)	(20.8)

Note: 2MAP = Second Malaya Plan (1961–65);
1MP = First Malaysia Plan (1966–70);
2MP = Second Malaysia Plan (1971–75);
3MP = Third Malaysia Plan (1976–80);
4MP = Fourth Malaysia Plan (1981–85);
5MP = Fifth Malaysia Plan (1986–90);
6MP = Sixth Malaysia Plan (1991–95);
7MP = Seventh Malaysia Plan (1996–2000).

Table 6. Public Sector Development Expenditure in Pakistan, 1955–98

Sector	1FYP	2FYP	3FYP	NOP	5FYP	6FYP	7FYP	8FYP
Economic Sectors	**81.8**	**84.4**	**85.0**	**80.0**	**85.1**	**73.9**	**70.3**	**66.8**
Agriculture	9.5	8.5	10.4	8.6	9.7	7.1	4.5	0.8
Industry & commerce	15.3	4.5	6.0	15.0	16.5	5.3	2.6	0.2
Transport & communications	22.2	15.0	19.1	20.7	23.0	17.2	17.6	17.3
Energy & water	32.3	55.5	47.5	35.2	35.6	43.8	43.6	46.6
Social Sectors	**22.2**	**15.6**	**15.0**	**20.0**	**14.9**	**26.1**	**29.7**	**33.2**
Education & training	4.8	4.4	4.3	4.8	3.7	5.9	10.1	11.2
Health	1.6	1.8	3.2	4.2	3.4	5.3	6.5	6.0
Housing	10.4	9.0	5.3	7.5	5.9	9.4	7.0	7.5

Note: 1FYP = First Five-Year Plan (1955–60);
2FYP = Second Five-Year Plan (1960–5);
3FYP = Third Five-Year Plan (1965–70);
NOP = Annual Plans (1972–78);
5FYP = Fifth Five-Year Plan (1978–83);
6FYP = Sixth Five-Year Plan (1983–84);
7FYP = Seventh Five-Year Plan (1988–93);
8FYP = Eighth Five-Year Plan (1993–98).

References

Alavi, Rokiah, 1996, *Industrialization in Malaysia* (Bethel, Connecticut: Routledge).

Amjad, R., and A.R. Kemal, 1997, "Macroeconomic Policies and Their Impact on Poverty Alleviation in Pakistan," *Pakistan Development Review*, Vol. 36 (1).

Andrus, J. Russell, and Azizali F. Mohammed, 1966, *Trade, Finance and Development in Pakistan* (Stanford, California: Stanford University Press).

Anwar, Tilat, 2001, "Impact of Globalization and Liberalization on Growth, Employment and Poverty: A Case Study of Pakistan," paper for the WIDER Development Conference on Growth and Poverty, Helsinki, May 2001.

Barlow, Colin, ed., 2001, *Modern Malaysia in the Global Economy* (Williston, Vermont: Edward Elgar).

Burki, Shahid Javed, 1999, *Pakistan: Fifty Years of Nationhood*, Third Edition (Boulder, Colorado: Westview Press).

Drabble, John H., 2000, *An Economic History of Malaysia, 1800-1990* (London: Macmillan).

Easterly, William, 2001, "The Political Economy of Growth without Development: A Case Study of Pakistan," paper for the Analytical Narratives of Growth Project, Kennedy School of Government, Harvard University.

Gomez, Edmund T., and K.S. Jomo, 1999, *Malaysia's Political Economy*, Second Edition (Cambridge, United Kingdom: Cambridge University Press).

______, 2000, "The Malaysian Development Dilemma," in *Rents, Rent-Seeking and Economic Development*, ed. by Mushtaq H. Khan and K.S. Jomo (Cambridge, United Kingdom: Cambridge University Press).

Hasan, Parvez, 1998, *Pakistan's Economy at the Crossroads* (Oxford, United Kingdom: Oxford University Press).

Husain, Ishrat, 1999, *Pakistan: The Economy of an Elitist State* (Oxford,United Kingdom: Oxford University Press).

Ismail, Muhd Salleh, and Saha Dhevan Meyanathan, 1993, *Malaysia: Growth, Equity, and Structural Transformation*, World Bank Series on the Lessons of East Asia (Washington: World Bank).

Jomo, K.S., 1990, *Growth and Structural Change in Malaysian Economy* (London: Macmillan).

______, (Ed.), 2001, *Malaysian Eclipse: Economic Crisis and Recovery* (London: Zed Books).

Khan, Mahmood H., 1994, "The Structural Adjustment Process and Agricultural Change in Pakistan in the 1980s and 1990s," *Pakistan Development Review*, Vol. 33 (4): 533–86.

______, 1997, "Economic Performance, Structural Reforms and Government Budgets in Pakistan," *Canadian Journal of Development Studies*, Vol. 18 (2): 279–302.

______, 2000, "Rural Poverty in Developing Countries," *Finance & Development*, Vol. 37 (December), pp. 26–29.

Khan, Shahrukh Rafi, ed., 1999, *50 Years of Pakistan's Economy* (London: Oxford University Press).

Mahbub ul Haq Center for Human Development, 1999, *A Profile of Poverty in Pakistan,* (Islamabad).

Meesook, Kanitta, and others, 2001, *Malaysia: From Crisis to Recovery*, Occasional Paper No. 207 (Washington: International Monetary Fund).

Mehmet, Ozay, 1986, *Development in Malaysia* (London: Croom Helm).

Naseem, S.M., 2001, *Government and NGO Programs in the Alleviation of Poverty in Pakistan*, A Consultant Report for the World Bank, Islamabad, Pakistan.

Noman, Omar, 1990, *Pakistan: Political and Economic History Since 1947* (Boston, Massachusetts: Keagan Paul).

Pakistan, Ministry of Finance, 2001, *Economic Survey*, 2000–2001 (Islamabad: Government of Pakistan).

Pakistan, Planning Commission, 2001, *Interim Poverty Reduction Strategy Paper* (Islamabad, Pakistan: Government of Pakistan).

Rao, V. V. Bhanoji,1980, *Malaysia: Development Pattern and Policy, 1947–1971* (Singapore: Singapore University Press).

Rizvi, Hasan-Askari, 2000, *Military, State and Society in Pakistan* (London: Macmillan Press).

World Bank, 1991, *Growth, Poverty Alleviation and Improved Income Distribution in Malaysia: Changing Focus of Government Policy Intervention,* Report No. 8667-MA (Washington: World Bank).

_______, 1993, *The East Asian Miracle: Economic Growth and Public Policy* (United Kingdom: Oxford University Press).

_______, 1995a, *Pakistan: Poverty Assessment*, World Bank Report No. 14397-PAK (Washington).

_______, 1995b, *Malaysia—Meeting Labor Needs: More Workers and Better Skills*, World Bank Report No. 13163-MY (Washington).

_______, 2000, *Malaysia—Malaysia Public Expenditures*, World Bank Report No. 2037-MA (Washington).

_______, 2001, *World Development Report 2000/2001: Attacking Poverty* (United Kingdom: Oxford University Press).

Zaidi, S. Akbar, 1999, *Issues in Pakistan's Economy* (United Kingdom: Oxford University Press).